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## Peru

## Grain and Feed

## Annual

## 2007

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**Report Highlights:**

Wheat production in Peru is forecast at 170,000 in MY2007 a minor decrease from MY2006. U.S. wheat exports to Peru fell a dramatically two thirds due to stiff price competition from Argentina and Canada. Corn production is forecast to increase 11 percent, reaching 1.55 MMT in MY 2007. Continued strong demand from the domestic poultry industry will be the main force in this demand. Rice production is expected to reach 1.6 MMT in 2007. The U.S.-Peru Trade Promotion Agreement provides preferential treatment for these products and will be instrumental in increasing U.S. market share in Peru.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
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## Executive Summary

Wheat production in MY 2007 (July/June) is forecast at 170,000 MT, an insignificant reduction compared to the previous year. Crop area for MY 2007 is forecast at 130,000 hectares, a slight increase compared to the previous year. Bread consumption in Peru is very limited, around 26 kilograms per annum, one of the lowest levels in South America. While import duties for wheat are a highly sensitive issue in Peru, U.S. wheat imports will be granted duty free access, if and when the U.S. – Peru TPA is implemented.

Corn production in Peru is expected to reach 1.55 MMT for MY 2007 (October/September) an increase of almost 11 percent compared to the previous year. This significant increase is due to good weather conditions, sufficient water supply and strong demand from the domestic poultry industry. Peru's 27 million chicken-per-month poultry market is the major user of yellow corn. Corn accounts for about 65 percent of the chicken feed. Post forecasts corn imports to fall four percent in MY 2006. This is explained by higher local production in response to better prices in the domestic market. Under the TPA, which is pending approval by the U.S. Congress, the U.S. will have a duty free TRQ of 500,000 MT for corn, which exceeds current exports by 32 percent.

Rice production for CY 2007 is estimated at 1.6 MMT (milled basis), a slight increase compared to the previous year. Rice is a staple product in the Peruvian diet, per capita rice consumption is estimated at about 52 kilograms. Peru imported 40,019 MT of rice in CY 2006, a significant decrease from the 125,233 MT imported the previous year. This import decrease was the result of higher rice production due to good weather conditions and attractive prices. If and when the U.S.-Peru TPA is approved, U.S. rice will be granted a duty free TRQ of 72,000 MT.

<b>PSD Table</b>										
<b>Country</b>	<b>Peru</b>									
<b>Commodity</b>	<b>Wheat</b>						(1000 HA)(10 00 MT)(MT /HA)			
	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
<b>Market Year Begin</b>		07/2005	07/2005		07/2006	07/2006		07/2007	07/2007	MM/YYYY Y
Area Harvested	131	131	131	128	128	128	0	0	130	(1000 HA)
Beginning Stocks	200	184	200	300	169	150	250	150	165	(1000 MT)
Production	174	174	174	170	170	175	0	0	170	(1000 MT)
MY Imports	1656	1480	1473	1500	1520	1550	0	0	1600	(1000 MT)
TY Imports	1656	1480	1473	1500	1520	1550	0	0	1600	(1000 MT)
TY Imp. from U.S.	418	700	472	0	800	250	0	0	500	(1000 MT)
Total Supply	2030	1838	1847	1970	1859	1875	250	150	1935	(1000 MT)
MY Exports	43	28	27	25	30	30	0	0	35	(1000 MT)
TY Exports	43	28	27	25	30	30	0	0	35	(1000 MT)
Feed Consumption	125	32	50	100	32	50	0	0	50	(1000 MT)
FSI Consumption	1562	1609	1620	1595	1647	1630	0	0	1750	(1000 MT)
Total Consumption	1687	1641	1670	1695	1679	1680	0	0	1800	(1000 MT)
Ending Stocks	300	169	150	250	150	165	0	0	100	(1000 MT)
Total Distribution	2030	1838	1847	1970	1859	1875	0	0	1935	(1000 MT)
Yield	1.328244 2	1.32824 42	1.32824 42	1.32812 5	1.32812 5	1.36718 75	0	0	1.30769 23	(MT/HA)
	—	—	—	—	—	—		—	—	
	—	—	—	—	—	—		-150	—	

<b>Import Trade Matrix</b>	
<b>Country</b>	Peru
<b>Commodity</b>	Wheat
Time Period	CY2006
Imports for:	
U.S.	167,000
Others	
Canada	649,000
Argentina	561,000
Total for Others	1,210,000
Others not Listed	139,000
Grand Total	1,516,000

Units: Metric Tons

## WHEAT

### Production

Wheat production in MY 2007 (July/June) is forecast at 170,000 MT, an insignificant reduction compared to MY 2006. Wheat is considered only a minor crop in Peru. The bulk of the crop is grown in the southern highlands of the Andes under very rudimentary cultural practices. Most of the wheat produced in Peru is soft wheat and it is consumed directly in soups and purees. This type of wheat is not suitable for milling.

Crop area for MY 2007 is forecast at 130,000 hectares, a slight increase compared to the previous year. Wheat area in Peru varies significantly from year to year depending on prices, profit expectations, and conditions of alternative crops such as barley and oats. Average yields in CY 2006 were 1.36 MT per hectare, compared to 1.33 MT per hectare in the previous year.

Even though Peru is not an important wheat producer, Alicorp, Peru's largest wheat miller, has established a program to encourage producers to grow durum wheat for their pasta plant in Arequipa (about a thousand kilometers south of Lima). Currently they are producing around 9,000 MT but expect to reach 25,000 in the upcoming years. Alicorp provides improved seed and technical assistance to local producers and contracts production in advance.

### Consumption

The wheat milling industry in Peru is highly concentrated. Of the 22 mills in the country, the largest one accounts for about 50 percent of total wheat processed, and the top four mills are responsible for about 80 percent of the wheat milled in the country.

Bread consumption in Peru continues to be very small. According to industry officials Peruvian per capita consumption is around 26 kilograms per annum. Most bread is purchased fresh in bakeries, and only 250 grams of bread per annum are consumed in loafs, which is a double fold increase in the last seven years. With 10 kilograms per capita, Peru continues to be the second largest pasta consumer in South America. The Peruvian cracker and cookie consumption is still very low, around 68,000 MT per year worth about \$100 million.

Post estimates that wheat consumption will gradually increase accompanying population and economic growth. Wheat consumption should grow about four percent per year in the upcoming three years.

### Trade

Peru's wheat imports in CY 2006, reached 1.52 MMT, increasing 3.3 percent compared to the previous year. Due to higher prices, U.S. wheat exports to Peru dropped almost to a third in CY 2006, reaching only 167,000 MT. Canada and Argentina were the main wheat suppliers to Peru in CY 2006, with 649,000 MT and 561,000 MT respectively. Average price of wheat from all sources in CY 2005 was \$178 TM (f.o.b. basis) significantly lower than the \$186 MT of U.S. wheat.

Peru's wheat milling industry is quite sophisticated, frequently millers import different types of wheat (such as soft, spring, white and DNS) for blending. The U.S. Wheat Associates has been instrumental in improving Peru's milling standards through its marketing and trade servicing programs.

In CY 2006, Peru exported 14,400 MT of wheat flour, almost entirely to Bolivia; 26,420 MT of cookies and crackers, increasing 12 percent compared to CY 2005, major markets were Ecuador, Colombia and Haiti.

### Policy

Import duties for wheat are a highly political issue in Peru. Agricultural producers constantly urge the government to maintain high levels of protection, alleging that wheat and wheat products are substitutes of potato, Peru's staple product. Nevertheless, producers have not been able to support their point with sound and reliable studies.

Wheat is assessed 17 percent import duty, one the highest in the region. Wheat is also assessed 19 percent value-added tax (VAT).

Peru is taking advantage of the tariff preferences granted by other countries in the region and is increasing exports of wheat products, especially cookies and crackers.

The U.S. and Peru agreed on the text of a Trade Promotion Agreement in CY 2006, this text has already been approved by the Peruvian Congress and is now awaiting approval by the U.S. Congress. Under the TPA, imports of U.S. wheat into Peru will be granted duty free entrance as soon as the agreement becomes effective. Since the U.S. will also grant duty free status to Peruvian wheat products, some millers are beginning to think about exporting pasta and cookies to the U.S.

<b>PSD Table</b>									
<b>Country</b>	<b>Peru</b>								
<b>Commodity</b>	<b>Corn</b>					(1000 HA)(1000 MT)(MT/HA)			
	2005	Revised		2006	Estimate		2007	Forecast	
	USD A Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
<b>Market Year Begin</b>		10/2005	10/2005		10/2006	10/2006		10/2007	10/2007
Area Harvested	510	510	510	525	525	525	0	0	540
Beginning Stocks	70	90	70	240	42	116	240	34	63
Production	1420	1420	1315	1550	1550	1400	0	0	1550
MY Imports	1500	1120	1447	1300	1050	1300	0	0	1250
TY Imports	1500	1120	1447	1300	1050	1300	0	0	1250
TY Imp. from U.S.	399	250	418	0	250	500	0	0	550
Total Supply	2990	2630	2832	3090	2642	2816	240	34	2863
MY Exports	0	8	6	0	8	8	0	0	10
TY Exports	0	8	6	0	8	8	0	0	10
Feed Consumption	2500	2350	2480	2600	2350	2515	0	0	2580
FSI Consumption	250	230	230	250	250	230	0	0	230
Total Consumption	2750	2580	2710	2850	2600	2745	0	0	2810
Ending Stocks	240	42	116	240	34	63	0	0	43
Total Distribution	2990	2630	2832	3090	2642	2816	0	0	2863
Yield	2.7843137	2.7843137	2.5784313	2.9523809	2.9523809	2.66666666	0	0	2.8703703
	—	—	—	—	—	—		—	—
	—	—	—	—	—	—		-34	—

<b>Import Trade Matrix</b>	
<b>Country</b>	Peru
<b>Commodity</b>	Corn
Time Period	CY2006
Imports for:	
U.S.	379,225
Others	
Argentina	977,260
Paraguay	128,543
Total for Others	1,105,803
Others not Listed	22,901
Grand Total	1,507,929

Units: Metric Tons



## CORN

### Production

Corn production in Peru is expected at 1.55 MMT for MY 2007 (October/September) an increase of almost 11 percent compared to the previous year. This significant increase is due to good weather conditions, sufficient water supply and strong demand for yellow corn from the poultry industry. Among the several types of corn produced in Peru, the most important varieties are starchy corn (with production estimated at 285,000 MT in CY 2006) which is used directly in human consumption, and yellow corn, with production estimated at 1.05 MMT, which is primarily used in the animal feed industry.

Harvested area in CY 2006 was 273,000 hectares and 204,000 hectares for yellow and starchy corn respectively. Yields are expected to be around 3.9 MT per hectare for yellow corn and 1.2 MT per hectare for starchy corn. Corn is mainly grown along the Peruvian coast and in the rainforest on the eastern slopes of the Andes.

### Consumption

Peru's 27 million chicken-per-month poultry market is the major user of yellow corn. Corn is about 65 percent of the chicken feed. Corn consumption is forecast at 2.7 MMT in CY 2007. With a consumption of about 712,000 MT in CY 2006, poultry meat continues to be one the cheapest source of protein in the Peruvian diet.

There are about 20 poultry operations in Peru, which control around a thousand farms. The largest producer, San Fernando, controls about 35 percent of the market. Total market size for CY 2006 is estimated at \$1.1 billion.

Informal producers (producers who are not legally established and do not pay taxes) are a major problem for the poultry sector in Peru. These producers account, which account for about 25 percent of the poultry meat industry, are not able to import corn due the lack of appropriate registration with the tax authority and rely solely in local corn. Informal producers are constantly undermining the industry profitability with their lower prices, which result from not paying taxes.

### Trade

Peru imported 1.5 MMT of yellow corn in CY 2006, of which 977,260 MMT came from Argentina. U.S. corn imports reached 379,225 MT. Unlike other years, in 2006, there was not a significant price difference between U.S. and Argentine corn, both were around \$110-114 per MT. However, feed producers and large poultry operations prefer to use Argentine or Peruvian corn over U.S. corn. They claim that Argentine and Peruvian corn is harder and comes with less broken kernels. Average price of locally produced corn was around \$150 in CY 2006. If U.S. corn prices remain high, it will continue losing its market share to domestic corn.

Post forecasts corn imports to fall four percent in MY 2006, this reduction is explained by higher local production due to better prices in the domestic market. However, we expect U.S. corn exports to remain at around 550,000 MT. Post believes that alternative corn products such as DDG have an interesting potential and should be promoted in this market. Post lead a Peruvian mission to the U.S. to learn about DDG industry and trade and continues its efforts to get the Peruvian industry acquainted with the product.

## Policy

Corn imports are assessed 12 percent import duty on CIF basis, plus a variable levy applied under the Price Band System. The Price Band System is a variable levy that depends on international prices, which assures that the import price of specific commodities, after payment of the levy, will equal a predetermined minimum import price. This tax, which is imposed on certain "sensitive" products, is expressed in dollars per metric ton. Currently the variable levy for corn is zero due to high international prices. Under the TPA, Peru has committed to eliminate the price band system will be eliminated for U.S. products.

Under the TPA, which is pending approval by the U.S. Congress, the U.S. will have a duty free TRQ of 500,000 MT for U.S. corn, with annual increases of six percent and full duty free access in 12 years.

The GOP does not have any direct subsidy or assistance program to encourage corn production. However, there has been some support through rotating credit funds. The Ministry of Agriculture continues to support an agreement between corn and poultry producers to encourage corn production in the eastern region of the country. This area is excellent for corn production, but transportation infrastructure is poor and in some cases does not exist.

Corn production began increasing sharply in 1997 due to a GOP's import substitution program. This program, which granted tax benefits to livestock operations outside of Lima that used only local corn, has been successful so far. In some areas, particularly on the eastern slopes of the Andes, the few poultry producers are planting and purchasing local corn. On the coast, the third largest poultry producer in the country is purchasing only local corn, through an agreement signed with corn producers in the area. The largest poultry producer in Peru has begun producing part of the corn it demands. This program and continued high international prices will encourage domestic production and therefore import substitution.

<b>PSD Table</b>										
<b>Country</b>	<b>Peru</b>									
<b>Commodity</b>	<b>Rice, Milled</b>						(1000 HA)(1000 MT)(MT/HA)			
	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
<b>Market Year Begin</b>		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008	MM/YYYY
Area Harvested	350	350	340	360	360	350	0	0	350	(1000 HA)
Beginning Stocks	544	313	544	484	303	459	434	303	389	(1000 MT)
Milled Production	1550	1550	1590	1580	1580	1600	0	0	1600	(1000 MT)
Rough Production	2246	2246	2304	2290	2290	2319	0	0	2319	(1000 MT)
Milling Rate (.9999)	6900	6900	6900	6900	6900	6900	0	0	6900	(1000 MT)
MY Imports	50	50	40	80	80	50	0	0	70	(1000 MT)
TY Imports	50	50	40	80	80	50	0	0	70	(1000 MT)
TY Imp. from U.S.	0	20	0	0	25	0	0	0	0	(1000 MT)
Total Supply	2144	1913	2174	2144	1963	2109	434	303	2059	(1000 MT)
MY Exports	10	10	25	10	10	20	0	0	20	(1000 MT)
TY Exports	10	10	25	10	10	20	0	0	20	(1000 MT)
Total Consumption	1650	1600	1690	1700	1650	1700	0	0	1700	(1000 MT)
Ending Stocks	484	303	459	434	303	389	0	0	339	(1000 MT)
Total Distribution	2144	1913	2174	2144	1963	2109	0	0	2059	(1000 MT)
Yield (Rough)	6.4171428	6.4171428	6.7764705	6.3611111	6.3611111	6.6257142	0	0	6.6257142	(MT/HA)
	—	—	—	—	—	—		—	—	
	—	—	—	—	—	—		-303	—	

<b>Import Trade Matrix</b>	
<b>Country</b>	Peru
<b>Commodity</b>	Rice, Milled
Time Period	CY 2007
Imports for:	
U.S.	301
Others	
Uruguay	32,756
Bolivia	6,512
Total for Others	39,268
Others not Listed	450
Grand Total	40,019

Units: Metric Tons

## RICE

### Production

Rice production for CY 2007 is estimated at 1.6 MMT (milled basis), a slight increase compared to the previous year. Rice in Peru is surface irrigated and dependent upon the supply of water draining from rivers in the Andes Mountains. Most of the rice in Peru is harvested April through July. Harvested area for MY 2007 is estimated at 350,000 hectares.

As a result of the continued drought in traditional rice growing regions of northern Peru in 2005, rice production in the eastern slopes of the Andes has increased significantly. This trend is expected to continue with a considerable portion of the rice production moving away from the arid northern coast into this new area where there is plenty of water.

Historical rice production areas in Peru are Lambayeque and Piura in the northern region and Arequipa in the south. Average yields in CY 2006 was around seven metric tons of paddy rice per hectare, but some farmers have yields as high as 14 metric tons per hectare. Since most of the production is carried out by small producers, rice quality and yields vary greatly depending on input levels which in turn depend on prices and economic conditions.

The Inter American Development Bank has a project in the San Martin province to promote a rice intensification system (SRI). The SRI consists in giving the plant more space to develop and obtain its nutrients, thus instead of planting each 25 cm, the SRI proposes to plant each 40 cm; and instead of planting five seeds it proposes to plant one or two. This project, which started a year ago, has already increased yields from 8 to 10 MT per hectare. There are about a thousand hectares under this system currently; its goal is to raise yields to an average of 14 MT per hectare.

### Consumption

Rice is a staple product in the Peruvian diet, per capita rice consumption is estimated at about 52 kilograms. Rice is sold traditionally in small markets, weighed out and bagged from 50 kilos sacks. In recent years, with the expansion of supermarket chains in Peru, several consumer habits, including the purchase of rice, have changed. There is a growing demand for prepackaged one-kilogram bags of rice. Higher quality rice, including U.S. rice, is generally marketed in this way.

### Trade

Peru imported 40,019 MT of rice in CY 2006, a significant decrease from the 125,233 MT imported the previous year. This import decrease was the result of higher rice production due to good weather conditions and attractive prices. Uruguay continued to be the leading exporter to the Peruvian market with 32,756 MT. Rice exports from the U.S. were almost non-existent. The largest rice importer, who owns the leading brand for bagged rice, has a long-term relationship with a Uruguayan rice exporter who provides good quality rice at a competitive price.

Though it is difficult to measure, Post estimates that approximately 20,000 MT of Peruvian rice was smuggled to Ecuador in 2006. A significant portion of this contraband continues its way to Colombia.

Some Peruvian importers are interested in purchasing paddy rice from the U.S., which is currently banned for SPS reasons by SENASA (the Peruvian SPS authority). Peru has banned paddy rice for many years on the ground that the hulls could transmit pests that are not

present in Peru. Khapra Beetle is the principal pest of concern to Peru. This is more likely to occur if the paddy rice is sold as seed rather than milled, but Peru claims it cannot control to lift this ban. Currently a pest risk assessment is being done which will hopefully result in elimination of the ban and additional sales of U.S. rice.

### **Policy**

Once the U.S.-Peru TPA is approved, U.S. rice will be granted a duty free TRQ of 72,000 MT, with annual increases of six percent and full duty free access in 17 years. Since Uruguay will not receive the same level of tariff preference for rice under the Peru-MERCOSUR trade agreement, this could be an opportunity for U.S. rice exporters to recover its market share in Peru.

Rice imports are assessed 25 percent import duty on CIF plus a variable levy applied under the Peruvian Price Band System. The Price Band System is an import tax, that depends on international prices, which assures that the import price of specific commodities, after payment of the levy, will equal a predetermined minimum import price. This tax, which is imposed on certain "sensitive" products, is expressed in dollars per metric ton. The current levy for milled rice is zero due to international prices. Under the TPA the Price Band System will be eliminated for products from the United States. It will remain in place for products from other countries, including MERCOSUR.